# Outline of Western Wireless Intercarrier Compensation Plan

- This document outlines (1) principles that should guide intercarrier compensation reform; (2) the plan, including provisions regarding (a) the legal and procedural framework, (b) default network architecture rules, (c) intercarrier compensation and SLC rate level shifts, and (d) universal service reform; and (3) differences between this approach and those of other plans.

- ***Principles that should guide intercarrier compensation reform***

  – **Promote intra- and inter-modal competition** by eliminating uneconomic arbitrage and establishing unified rules regarding intercarrier compensation and universal service, unlike the current divergent array of rules that unfairly discriminate among various classes of service providers

  – **Transition to a unified rate structure and unified rate levels** for all forms of intercarrier compensation

    * Compensation rules should not differ depending on jurisdictional classifications (interstate vs. intrastate), distance-based categories (local vs. long-distance, intra- vs. inter-MTA), or category of carrier (non-rural ILEC, rural ILEC, CLEC, CMRS, VOIP). Instead, a uniform standard should apply to all forms of traffic that is "transported and terminated."

    * In lieu of establishing uniform per-minute transport and termination rates, bill-and-keep should apply, consistent with the pricing standards in the Act.

  – **Explicit, sufficient, competitively-neutral, and "unified" universal service support** targeted to consumers in high-cost areas

    * USF should not be used to ensure "revenue neutrality" or provide guaranteed returns for specified classes of carriers. Instead, USF should be overhauled and "right-sized"

    * All explicit USF must continue to be fully portable among all ETCs

    * Universal service should be funded in a competitively neutral manner with all telecommunications carriers contributing to support mechanisms.

  – **Consumer protection** by promoting full-fledged competition

    * No revenue guarantees; ultimately, no revenue restrictions (retail rate deregulation)

    * Truth in billing (no mischaracterizing SLCs as regulatory obligations)

  – **Adherence to existing law**, including state PUCs' role in arbitrating interconnection agreements

- ***The Plan***

  – **Legal and procedural framework:** should depend on Sections 251 and 252 of the Act

    * All intercarrier compensation is potentially subject to interconnection agreements among carriers, pursuant to Section 251(b)(5). Pricing rules in Section 252(d)(2) permit FCC and/or state commissions to require "bill-and-keep." Section 201 authorizes the FCC to prescribe rules to govern state PUCs in arbitrating such agreements, and Section 332 provides an additional source of authority regarding interconnection with wireless carriers.

    * WW recommends that the FCC establish standards regarding (1) network architecture defaults ("edge" rules), and (2) maximum rate levels.

    * Also, in the short term, the FCC should reaffirm its interconnection rules governing the exchange of traffic with wireless carriers, and should clarify that (1) transport and termination rates (not access charges) apply to all intra-MTA traffic originating from and terminating to wireless carriers, notwithstanding any ILEC tariffs to the contrary; and (2) wireless carriers are entitled to "local" interconnection arrangements based on the rating points for their customers, regardless of how traffic is actually routed.

  – **Default Network Architecture Rules**

    * The following rules are standards that should apply to interconnection arrangements between carriers. Carriers may negotiate alternative arrangements, subject to state PUC approval; all agreements must be filed and offered for others to "opt in" pursuant to Section 252(i).

    * In general, each carrier bears financial responsibility for delivering its originating traffic to another carrier's "edge," in a LATA, or (at the option of the originating carrier) to a mutual meet-point at a hierarchical ILEC's access tandem in the LATA.

    * For interconnection between hierarchical ILECs and other carriers, the non-ILEC carrier has the option of (1) the default "edge" rule (first part of preceding bullet point) or (2) have the ILEC carry traffic both ways between networks and recover 50% of current switched dedicated transport rate from other carrier.

    * Hierarchical ILECs must offer "transit" service, with rates capped based on inflation.

  – **Intercarrier Compensation and SLC Rate Level Shifts**

    * Over a 4 year period, the maximum level of per-minute intercarrier compensation rates subject to interconnection agreements declines to zero (bill-and-keep).

      > In Year 1, the maximum intercarrier compensation rate for each ILEC is that at which the ILEC would receive 80% of the interstate + intrastate carrier access revenues it received in Year 0; in Year 2, 60%; in Year 3, 40%; in Year 4, 20%, and beginning after the end of the four-year transition, zero.

> For the smallest rural ILECs (those with fewer than 30,000 lines in a state and fewer than 100,000 nationwide), these reductions would proceed on a slower time frame (e.g., six years instead of four).

> Reductions would be targeted as follows:

⇒ Beginning in Year 1, no non-access charge rate may exceed **[$0.0015]** per minute.

⇒ Subject to the preceding bullet point, rate reductions would be targeted so that the highest per-minute rates (typically intrastate access) come down first until they are at parity with interstate access rate levels.

* ILECs would be allowed to increase their subscriber line charges ("SLCs") over the four-year transition period, as proposed by the ICF for non-rural ILECs, except there would be no difference between the SLC caps for rural and non-rural ILECs.

> Beginning in Year 1, ILECs would be subject to the "CTIA Consumer Code" Rule #6 with regard to how they market their services: "**Separately identify carrier charges from taxes on billing statements.** On customers' bills, carriers will distinguish (a) monthly charges for service and features, and other charges collected and retained by the carrier, from (b) taxes, fees and other charges collected by the carrier and remitted to federal state or local governments. Carriers will not label cost recovery fees or charges as taxes." In other words, ILECs' marketing materials (including pricing) must not break out the SLC as a regulatorily mandated add-on charge; the SLC must be marketed as part of the basic price of service.

> **SLCs will be completely deregulated** at the end of the four-year transition period for any ILEC that can prove to the satisfaction of the FCC that it is subject to competition – *i.e.*, at least one facilities-based carrier is available to **[XX]**% of customers in the area, and at least **[YY]**% of customers have chosen to take service from such competing facilities-based carrier(s). If the ILEC is receiving high-cost funds, then the competing facilities-based carrier must also have ETC status and be receiving high-cost funds.

– **Universal Service Reform**

* Replace all existing USF mechanisms with a unified high-cost universal service mechanism that would be fully portable to all designated ETCs operating in a geographic area, and that would calculate support for all eligible carriers based on the forward-looking economic costs of providing the supported universal service in an area using the least-cost technology.

> If needed to facilitate intrastate rate rebalancing, additional portable funds could be disbursed in states that have statewide average forward-looking costs significantly greater than the national average (like today's High Cost Model-based support fund).

* At the end of a four-year transition period (six years for areas served by small rural ILECs), the overall size of the fund would be "right-sized," *i.e.,* targeted to be no greater than the size of today's high-cost support funds, and possibly smaller, as long as sufficient support is provided to the highest-cost areas. Individual carriers may receive more or less under the new rules than they received in the past.

* To ease the transition for rural ILECs and other ETCs in their service areas, the existing USF funds would be transitioned out, and the new funds would be transitioned in, in graduated "steps" over a four-year transition period.

  > This transition process would be extended to six years for the smallest rural ILECs (those with fewer than 30,000 lines in a state and fewer than 100,000 nationwide) and other ETCs in their service areas.

  > In addition, in extraordinary circumstances, if an incumbent or competitive ETC can prove to the FCC that it faces extreme hardships and additional support is needed to avoid increasing end-user rates to "unaffordable" levels, additional "safety net" support should be available to all ETCs in the specified geographic area for a limited period of time.

- ***<u>Differences between this WW approach and those of other plans</u>***

  − **<u>Greater State PUC Role</u>.** The ICF plan largely displaces state PUCs by providing extraordinarily detailed prescriptions regarding rate structures and rate levels. The WW plan preserves more flexibility for carrier-to-carrier negotiations, and hews more closely to the division of authority between the FCC and states set forth in Sections 251 and 252 of the Act.

  − **<u>Eliminate Distortions Faster / Reach Bill-and-Keep Sooner</u>.** The ICF plan takes 8 years to reach bill-and-keep; and the EPG and ARIC plans would go the wrong direction by very substantially *increasing* the intercarrier compensation paid by CMRS and other competitive carriers. By contrast, the WW plan would reach bill-and-keep after a four-year transition period.

  − **<u>Promote Broadband and VOIP Deployment More Effectively</u>.** By eliminating the distortions imposed by the existing hodge-podge of different intercarrier compensation systems more rapidly than other plans, the WW plan would more effectively stimulate deployment of new technologies, including broadband and VOIP, by all classes of carriers.

  − **<u>More Deregulation/More Consumer Protection</u>.**

  * Unlike any of the other plans, the WW plan provides a path toward full retail deregulation of the ILECs (elimination of SLC caps), thus setting the stage for full and unfettered intermodal, facilities-based competition.

  * At the same time, the WW plan also is unique in ending the ILECs' ability to take advantage of consumers by mischaracterizing SLCs as a regulatory mandate.

– **Competitively Neutral/No Revenue Guarantees.** The ICF, EPG, and ARIC plans preserve rate-of-return based revenue guarantees for rural ILECs and attempt to achieve "revenue neutrality" for all ILECs (with new USF dollars targeted to replace lost access revenues). The WW plan places all carriers on an equal competitive footing by abandoning all efforts to provide revenue guarantees or revenue neutrality.

  * The ICF plan fences off substantial amounts of money from competition, by establishing a substantial new fund for rural ILECs that is "non-portable" to wireless ETCs, and by preserving residual access revenues for rural ILECs that are unavailable to wireless competitors operating in the same areas. By contrast, the WW plan is pro-competition rather than favoring a particular industry segment, and therefore will more effectively advance the interests of rural consumers.

– **Pro-Rural Consumer.** The WW plan targets USF dollars to consumers in the most rural, high-cost areas. The ICF, EPG, and ARIC plans continue to target USF dollars to the least efficient ILECs, regardless of how costly their areas really are to serve and regardless of the extent to which consumers in those areas need to be subsidized.